

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 21-06-010:

This is the proposed decision of Administrative Law Judge Poirier. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's March 17, 2022 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:mph

Attachment

Decision **PROPOSED DECISION OF ALJ POIRIER** (Mailed 2/7/2022)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of
Southern California Gas Company
(U904G) Regarding Year 27 (2020-2021)
of Its Gas Cost Incentive Mechanism.

Application 21-06-010

**DECISION APPROVING SOUTHERN CALIFORNIA GAS COMPANY'S
SHAREHOLDER REWARD FOR YEAR 27 (2020-2021)
OF THE GAS COST INCENTIVE MECHANISM****Summary**

This decision approves Southern California Gas Company's request for a shareholder reward of \$11,143,725 for Year 27 (2020-2021) of the company's Gas Cost Incentive Mechanism performance. The Commission's Public Advocates Office verified that Southern California Gas Company's recorded gas costs were \$184,744,972 below the benchmark, which results in a reward of \$11,143,725 to Southern California Gas Company's shareholders and a ratepayer benefit of \$173,601,247. This decision closes the proceeding.

1. Background**1.1. Regulatory Background**

The Gas Cost Incentive Mechanism (GCIM) is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076.¹ The purpose of the GCIM is to provide Southern California Gas Company (SoCalGas)

¹ See D.97-06-061, D.98-12-057, and D.02-06-023. The latter decisions modified and extended the GCIM on an annual basis until such time as the Commission modifies or terminates it.

with a financial incentive to purchase and transport gas for core ratepayers at a cost that is equal to, or less than, prevailing market prices.

The GCIM operates on a 12-month cycle that ends on March 31 of each calendar year. SoCalGas must file an application by June 15 of each calendar year to obtain its shareholder reward or penalty for the GCIM year ending on the immediately preceding March 31. The application must include a report for the prior GCIM year that: (1) describes SoCalGas' Gas Acquisition Department's operations; (2) reports the variance between actual gas costs and the market benchmark; (3) reports the GCIM shareholder reward or penalty; and (4) describes any deviation from gas storage inventory targets.

The Commission's Public Advocates Office (Cal Advocates) is required to conduct an annual audit of the GCIM and file a monitoring and evaluation report by October 15 of each year as part of the annual GCIM application proceeding.

1.2. Procedural Background

SoCalGas filed Application (A.) 21-06-010 on June 15, 2021. Cal Advocates filed a response to the application on July 19, 2021.

On July 26, 2021, the assigned Administrative Law Judge (ALJ) issued a ruling that set a prehearing conference (PHC). On August 4, 2021, SoCalGas filed proof of compliance with the requirement in Rule 3.2 of the Commission's Rules of Practice and Procedure to provide notice of A.21-06-010 to SoCalGas' customers and the public. A telephonic PHC was held on August 10, 2021, with SoCalGas and Cal Advocates participating in the PHC.

The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on August 12, 2021. Among other things, the Scoping Memo confirmed the Commission's preliminary determination that the category for this

proceeding is ratesetting. However, the Scoping Memo determined that evidentiary hearings would not be needed.

Cal Advocates filed its Monitoring and Evaluation Report (Cal Advocates Report) on October 15, 2021. No party filed comments on the Cal Advocates Report.

2. Issues Before the Commission

Pursuant to the Scoping Memo, the scope of this proceeding consists of the following issues:

- A. Whether to approve SoCalGas' requested shareholder award of \$11,143,725 for GCIM Year 27.
- B. Whether SoCalGas has calculated its requested shareholder award of \$11,143,725 in accordance with applicable Commission decisions and SoCalGas' GCIM tariff.

The Scoping Memo also determined that there are no safety issues that need to be considered in this proceeding.

3. Summary of Application 21-06-010

In A.21-06-010, SoCalGas requests a shareholder reward of \$11,143,725 for GCIM Year 27 that covers the period of April 1, 2020 through March 31, 2021. The GCIM compares the Actual Total Annual Purchased Gas Cost (Actual Annual Cost) to the Annual Benchmark Budget (Benchmark Budget). The Actual Annual Cost is the sum of: (1) actual gas commodity costs and transportation costs, (2) net gain or loss from certain gas hedging transactions, (3) net revenues from secondary market services (SMS), and (4) certain other revenues, expenses, and adjustments identified in SoCalGas' GCIM tariff.

The Benchmark Budget consists of monthly benchmark gas commodity costs, monthly benchmark commodity transportation costs, and monthly

benchmark transportation reservation charges, as described in SoCalGas' GCIM tariff.

To determine the annual GCIM shareholder reward or penalty, the Actual Annual Cost is compared to the Benchmark Budget. Core ratepayers are assigned all gains and losses within a Tolerance Band. Gains and losses outside the Tolerance Band are shared between core ratepayers and shareholders in accordance with the formula described below.

The upper limit of the Tolerance Band is the Benchmark Budget plus two percent (2%) of the annual Benchmark Gas Commodity Cost (BGCC). The Actual Annual Costs in excess of the upper 2% limit of the Tolerance Band (*i.e.*, a loss) is shared equally between core ratepayers and SoCalGas.

The lower limit of the Tolerance Band is the Benchmark Budget minus one percent (1%) of the BGCC. To the extent the Actual Annual Cost is 1% – 5% below the Benchmark Budget (measured as a percentage of BGCC) the first 1% of the gain (*i.e.*, the Tolerance Band) is allocated entirely to core ratepayers and the remainder is allocated 75% to core ratepayers and 25% to shareholders. To the extent the Actual Annual Cost is greater than 5% below the Benchmark Budget (measured as a percentage of BGCC) the gain in excess of 5% is allocated 90% to core ratepayers and 10% to shareholders. The SoCalGas shareholder award is capped at 1.5% of actual annual gas commodity costs.

The following table shows the GCIM sharing formula in tabular form:

Table 1 GCIM Sharing Formula Actual Annual Cost vs. Benchmark Budget		
Actual Annual Cost > Benchmark Difference as a Percentage of BGCC	Ratepayers (Loss)	Shareholders (Penalty)
0 – 2% (Tolerance Band)	(100%)	0%
>2%	(50%)	(50%)
Benchmark > Actual Annual Cost Difference as a Percentage of BGCC	Ratepayers Gain	Shareholders Reward 1
0 – 1% (Tolerance Band)	100%	0%
1% - 5%	75%	25%
5% & Above	90%	10%
¹ Shareholder reward capped at 1.5% of the actual annual commodity cost.		

This current application is SoCalGas' 27th annual application under the GCIM. The Commission issued D.21-02-004 and approved a shareholder reward of \$12,806,448 million for SoCalGas' GCIM Year 26 application.

For Year 27, SoCalGas provides that its actual cost for all gas purchases subject to the GCIM was \$1,015,826,117 while the benchmark cost was \$1,200,571,090. Therefore, SoCalGas acquired gas at \$184,744,972 below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of the \$184,744,972 savings for purchases below the benchmark, \$173,601,247 is ratepayer savings and \$11,143,725 is shareholder rewards.

Table 2 summarizes the Year 27 GCIM results.

Table 2 SoCalGas Reported GCIM Year 27 Results				
Row		Benchmark (\$)	Actual (\$)	Actual Over/(Under) Benchmark (\$)
1	Commodity	927,660,001	760,815,518	
2	SMS Net Revenue	-	(18,447,277)	
3	Off System Park and Loans	-	152,862	
4	Hedging Gain	-	393,926	
5	Transportation	272,911,089	272,911,089	
6	Total	1,200,571,090	1,015,826,117	(184,744,972)
		GCIM Sharing Allocation		
7	Tolerance Band (0 - 1%) ¹			9,276,600
8	Subject to 75% / 25% Sharing (1% - 5%) Core Ratepayer Share: 75% Shareholder Share: 25%			37,106,400 27,829,800 9,276,600
9	Subject to 90% / 10% Sharing (5% & Above) Core Ratepayer Share: 90% Shareholder Share: 10%			138,361,972 124,525,775 13,836,197
10	Total Ratepayer Share			161,632,175
11	Total Shareholder Share			23,112,797
12	Total Ratepayer Share After 1.5% Cap			173,601,247
13	Total Shareholder Share After 1.5% Cap			11,143,725
	¹ Tolerance Band calculated as a percentage of benchmark commodity costs in Row 1.			
	Source: SoCalGas Year 27 GCIM Report, Cal Advocates Monitoring and Evaluation Report for GCIM Year 27.			

SoCalGas indicated that various factors impacted Year 27 GCIM results. The total volume of gas purchased for Year 27 was 9% lower than Year 26. The commodity benchmark for GCIM Year 27 was lower than for Year 26 due to the lower amount of gas purchased and because the published indices that the benchmark was based on were lower overall compared to Year 26.² Actual commodity costs for GCIM Year 27 were “lower than Year 26 due to the lower volume purchased for Year 27, lower gas purchase prices and revenue from gas sales in Year 27 was greater than Year 26.”³ Additionally, SMS revenue was significantly lower in Year 27.

Table 3 provides a comparison of Year 26 and Year 27 benchmark costs and actual costs.

Table 3 Comparison of GCIM Year 26 and Year 27 Benchmark Costs and Actual Costs (\$) Over/(Under)			
	Year 27	Year 26	Difference
Commodity Benchmark	927,660,001	935,735,643	(8,075,642)
Commodity Actual	760,815,518	898,274,139	(137,458,622)
SMS Net Revenue	(18,447,277)	(43,690,458)	25,243,182
Off System Park and Loans	152,862	35,802	117,060
Hedging	393,926	(856,293)	1,250,220
Benchmark	(184,744,972)	(81,972,454)	(102,772,518)
Source: SoCalGas Year 27 GCIM Report and D.21-02-004 for SoCalGas' GCIM Year 26.			

² SoCalGas Application, Attachment A at A-6.

³ *Ibid.*

3.1. Summary of Cal Advocates' Monitoring and Evaluation Report

In its Monitoring and Evaluation Report filed on October 15, 2021, Cal Advocates verified that SoCalGas' recorded gas costs were \$184,744,972 below the benchmark, which results in a reward of \$11,143,725 to SoCalGas' shareholders and a ratepayer benefit of \$173,601,247. Accordingly, Cal Advocates recommends that the Commission approve a GCIM shareholder reward of \$11,143,725 for Year 27. No party commented on the Cal Advocates Report.

4. Conclusion

The record of this proceeding establishes that SoCalGas has calculated its requested shareholder reward of \$11,143,725 for GCIM Year 27 in accordance with applicable Commission decisions and SoCalGas' GCIM tariff. Therefore, we hereby approve SoCalGas's requested shareholder reward. SoCalGas shall recover the approved shareholder reward by adjusting its Purchased Gas Account, but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.

5. Comments on Proposed Decision

The proposed decision of ALJ Marcelo Poirier in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

6. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Marcelo L. Poirier is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In A.21-06-010, SoCalGas requests a shareholder reward of \$11,143,725 for GCIM Year 27 that covers the period of April 1, 2020 through March 31, 2021.
2. For GCIM Year 27, the Benchmark Costs were \$1,200,571,090, the Actual Annual Costs were \$1,015,826,117, and total GCIM savings were \$184,744,972.
3. Cal Advocates' Monitoring and Evaluation Report verifies that Year 27 recorded gas costs for SoCalGas were below benchmark, resulting in savings for ratepayers.
4. Cal Advocates calculated that the total savings in gas costs results in a ratepayer benefit of \$173,601,247 and a reward of \$11,143,725 to SoCalGas shareholders. Cal Advocates' findings match those of SoCalGas.

Conclusions of Law

1. A.21-06-010 should be granted.
2. SoCalGas is entitled to a shareholder reward of \$11,143,725 for GCIM Year 27. SoCalGas should receive the reward by adjusting its Purchased Gas Account, but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.
3. The following order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to adjust its Purchased Gas Account to receive a shareholder reward of \$11,143,725 for Year 27 of SoCalGas's Gas Cost Incentive Mechanism (GCIM), but only to the extent that SoCalGas has not already recovered this reward pursuant to its GCIM tariff.

2. Application 21-06-010 is closed.

This order is effective today.

Dated _____, at Sacramento, California.